

Message Text

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ACTION EB-08

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E.O. 11652: N/A
TAGS: EFIN, SZ
SUBJECT: COMPTROLLER OF THE CURRENCY'S MEETING WITH
A PROMINENT SWISS PRIVATE BANKER

1. SUMMARY: DURING HIS VISIT TO ZURICH, COMPTROLLER OF THE CURRENCY, JOHN HEIMANN HAD A FRANK EXCHANGE OF VIEWS ON INTERNATIONAL FINANCIAL SCENE WITH PROMINENT SWISS PRIVATE BANKER. THE BANKER SAW A POTENTIALLY UNDESIRABLE TREND TOWARD CURRENCY BLOCS -- DOLLAR, YEN, MARK-SWISS FRANC -- SETTLEMENTS BETWEEN WHICH COULD BECOME INCREASINGLY DIFFICULT. SWISS BANKER ALSO VIEWED RECENT SWISS MEASURES TO CONTROL CAPITAL INFLOWS AS LESS THAN EFFICACIOUS, OPINED THAT BANK SUPERVISORS TENDED TO LOOK AT YESTERDAY'S RATHER THAN TODAY'S PROBLEMS AND THAT THE EXCESSES OF OFFSHORE BANKING HAD LED TO A DECLINE IN BANKING MORALITY. END SUMMARY.

2) REGARDING CURRENT INTERNATIONAL BANKING SITUATION, SWISS FINANCIER WAS NOT SO MUCH CONCERNED ABOUT THE INTENSE COMPETITION ON RATES AND TERMS, WHICH HE THOUGHT THE BANKING SYSTEM COULD HANDLE. RATHER, HE WONDERED WHETHER POLICY MAKERS AND BANK SUPERVISORS IN MAJOR
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COUNTRIES HAD THOUGHT ENOUGH ABOUT PLANS FOR WHAT TO DO IN THE EVENT OF A COLLAPSE IN THE EXISTING MULTI-LATERAL, BUT LARGELY DOLLAR BASED, INTERNATIONAL PAYMENT SYSTEM. HE SAW A POTENTIALLY DISTURBING TREND TOWARD THE EMERGENCE OF CURRENCY BLOCS -- DOLLAR, YEN, MARK-SWISS FRANC -- SETTLEMENTS BETWEEN WHICH COULD BECOME INCREASINGLY DIFFICULT. ON THE SUBJECT OF EASTERN

EUROPEAN DEBT, BANKER INDICATED THAT HE DID NOT SUBSCRIBE UNEQUIVOCALLY TO THEORY OF SOVIET PROTECTIVE UMBRELLA. HE SAID HI BANK THOUGHT IN TERMS OF BOTH OVERALL COMECON EXPOSURE AND INDIVIDUAL COUNTRY LIMITS WITH, FOR EXAMPLE,) POLAND JUDGED A WORSE RISK THAN HUNGARY.

3) SOURCE REFERRED TO SOME INITIAL CONFUSION AND UNCERTAINTY REGARDING THE RECENTLY IMPLEMENTED SWISS RESTRICTIONS ON CAPITAL IMPORTS. HE THOUGHT THAT THE LIMITATIONS COULD NOT REALLY STOP SPECULATION IN SWISS FRANCS. HE CITED ONE INSTANCE OF HIS BANK BEING OFFERED AN 80 MILLION SWISS FRANC CD BY A LARGE REPUTABLE AMERICAN BANK AND FELT THAT THERE MUST BE MANY SIMILAR OPPORTUNITIES FOR SPECULATORS STILL TO ACQUIRE SWISS FRANCS. SWISS BANKER CONSIDERED RECENT PROPOSAL TO LICENSE FOREIGN EXCHANGE TRADERS IN SWITZERLAND USELESS BUT FELT THAT SWISS NATIONAL BANK PRESIDENT LEUTWILER WAS BEING PRESSURED BY THE SWISS FEDERAL COUNCIL TO EFFECT SUCH A REGULATION.

4) ON MORE GENERAL SUBJECT OF BANK REGULATION, SWISS SOURCE OPINED THAT SUPERVISORY AUTHORITIES WERE ALWAYS LOOKING AT YESTERDAY'S PROBLEMS. HE NOTED, FOR EXAMPLE, THAT WHILE THERE WERE RULES ON FORWARD TRANSACTIONS IN SECURITIES AND COMMODITIES, INSUFFICIENT ATTENTION HAD BEEN GIVEN TO THE VOLUME OF FORWARD DEALINGS IN LIMITED OFFICIAL USE

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FOREIGN EXCHANGE.

5) SWISS BANKER EXPRESSED CONCERN THAT MANY NATIONAL REGULATORY AUTHORITIES MADE NO EFFORT TO CONTROL OFFSHORE BANKING OR TO DISCOURAGE PRACTICES ASSOCIATED WITH IT WHICH HAD LET TO A DECLINE IN BANKING MORALITY. HE REFERRED TO PRACTICES OF SOME US BANKERS HAVING A TELEPHONE LINE IN NEW YORK WHICH THEY ANSWERED AS THEIR CAYMAN ISLANDS SUBSIDIARY AND USE IN THEIR UNITED STATES OFFICES OF THEIR CAYMAN AFFILIATE'S STATIONERY. HE FELT THAT US BALANCE OF PAYMENTS CAPITAL CONTROLS AND INTEREST EQUALIZATION TAX IN THE 1960S HAD BEEN RESPONSIBLE FOR MUCH OF THE INITIAL GROWTH OF OFFSHORE BANKING. CONVERSATION THEN LED TO DISCUSSION OF PROPOSED TAX FREE BANKING ZONE IN NEW YORK. SWISS BANKERS INDICATED THA RECENT UK MEASURES TO TAX IMPUTED AMOUNTS OF BUSINESS BOOKED IN LONDON FOR OFFSHORE CENTERS MIGHT BE REASON BEHIND PRESENT PROPOSAL TO CREATE NEW YORK TAX FREE BANKING ZONE. WARNER

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